



# DataPro



## CORPORATE RATING REPORT

## MECURE INDUSTRIES LIMITED

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June, 2022

# MECURE INDUSTRIES LIMITED

## Long-Term Rating:

# A<sup>-</sup>

Short Term Rating: A1

Rating Outlook: Stable

Trend: UP

Currency: Naira

Date issued: 23 Jun., 2022

Valid Till: 22 Jun., 2023

## Reference:

Abiodun Adeseyoju, FCA.

Abimbola Adeseyoju

Oladele Adeoye

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## EXECUTIVE SUMMARY

	2021 ₦'000	2020 ₦'000	2019 ₦'000	2018 ₦'000
Turnover	20,697,946	17,418,183	15,813,495	15,172,872
Pre Tax Profit	1,741,496	1,448,732	815,371	901,723
Shareholders' Fund	4,733,669	4,682,876	4,024,393	3,720,480
Fixed Asset	8,353,971	6,570,153	5,085,525	3,849,282
Total Asset	19,669,844	16,734,287	13,690,767	12,211,509

### Rating Explanation

The Short-Term Rating of **A1** indicates *Good Credit Quality* and satisfactory capacity for timely payment of financial commitments.

The Long-Term Rating of **A<sup>-</sup>** indicates *Low Risk*. It shows Very Good Financial Strength, Operating Performance and Business Profile when compared to the standard established by *DataPro*. This Company, in our opinion, has strong ability to meet its ongoing obligations.

## RATING SYNOPSIS

The Rating took into consideration all relevant qualitative and quantitative factors to arrive at the assigned risk indicator.

The qualitative information used were based on industry and market intelligence including public information. The quantitative information was obtained from the Company's Audited and Management Accounts.

The risk factors were assessed using the Company's Capitalization, Earnings Profile, Liquidity, Corporate Governance, Regulatory Compliance and Sustainability of its current healthy profile in the medium to long term period.

Overall, the following were observed:

### Strengths:

- Experienced Management Team
- Sustainable Earning Profile
- Good Liquidity Position

### Weakness:

- High Debt Profile

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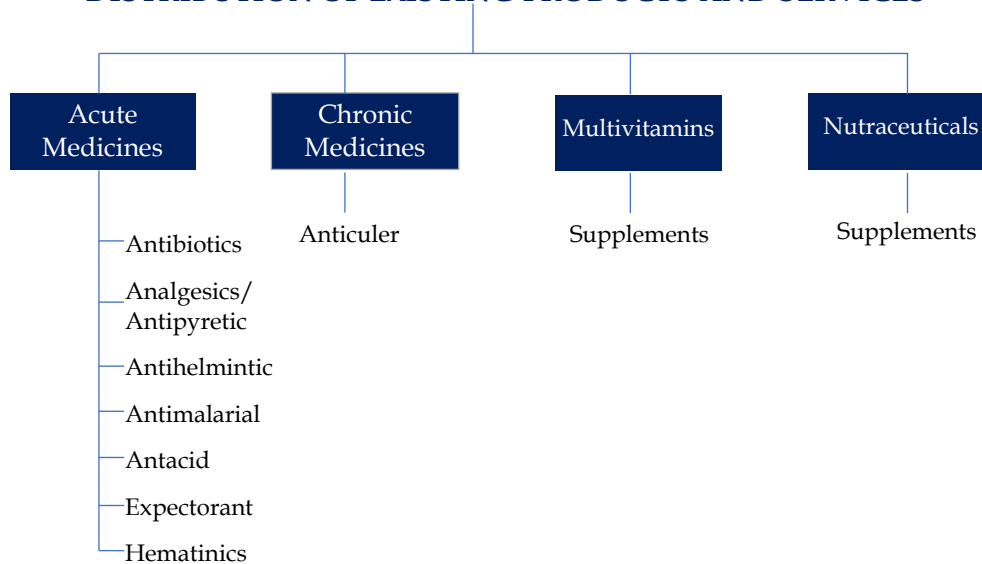
## BACKGROUND

*MeCure Industries Limited* (“*The Company*”) was incorporated in March, 2005 as a Private Limited Liability Company. It began operation in the same year as a pharmaceutical company.

The principal activities of the Company include the manufacture, distribution and sale of Pharmaceutical and Nutraceutical Products. The Company’s product portfolio covers the treatment of chronic diseases, infections and malaria, as well as Over-the-Counter (“OTC”) drugs.

In order to ensure stability of its supply chain, the Company established partnerships with international manufacturers, pharmaceutical companies and other vendors. The Company is reputed to be the first to introduce tropical packs, unit dosage and tablets in a capsule formation in Nigeria.

### DISTRIBUTION OF EXISTING PRODUCTS AND SERVICES

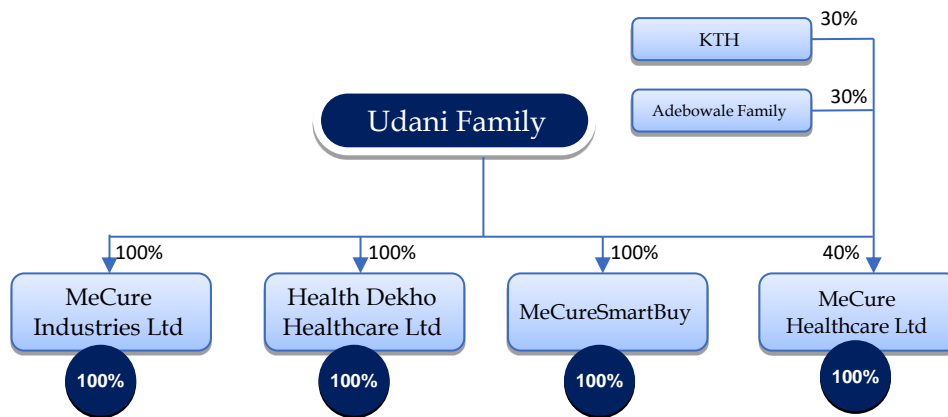


*Source: MeCure Industries Limited*

The Company’s factory is situated in Lagos. However, the distribution of its products is managed from four depots (Abia, Anambra, Kano and Lagos) to a network of over 100 independent distributors. Over 750 employees are currently engaged by the Company.

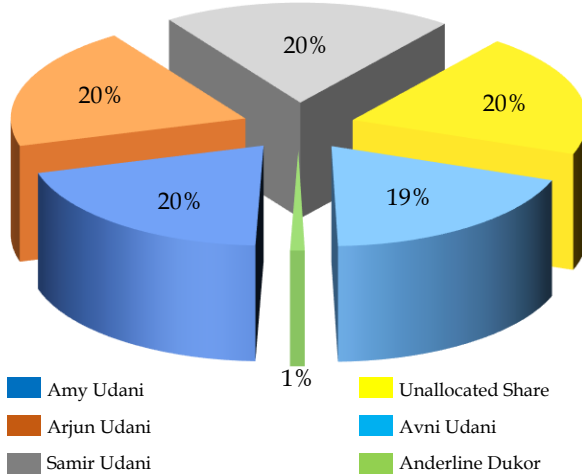
The Company has a market share of 2.2% based on industry size of \$2 billion. The Company has subsidiaries and related companies in Healthcare, E-Health and IT sectors.

### MECURE RELATED COMPANIES



Source: MeCure Industries Ltd

### ANALYSIS OF SHAREHOLDING STRUCTURE



Source: MeCure Industries Ltd

MeCure Industries Limited is beneficially owned by the Udani family. However, 20% of its shares are currently unallotted.

## DIRECTORS PROFILE

The following served as directors during the year under review; *Mr. Samir Udani – Chairman; Mr. Arjun Udani; Mrs. Avni Udani; Mrs. Dukor Andrenaline Ndidi; Mrs. Ayotunde Owoigbe; Mr. Chidi Okoro; Dr. Ajie Obiefuna and Mrs. Amy Udani.*

The Directors’ profiles are as follows.

- Name:** Samir Udani  
**Position:** Chairman  
**Years of Experience:** 35 years  
**Education:**
  - University Institute of Chemical Technology, India
  - B.Sc. Mumbai University, India**Job Experience:**
  - MeCure Industries Limited**Board Membership:** Since 2005
- Name:** Arjun Udani  
**Position:** Non-Executive Director  
**Years of Experience:** 12 years

**Education:** ●B.Sc – Mumbai University, India  
 ●Stanford University, California  
**Job Experience:** ●MeCure Industries Limited  
 ●Renaissance Life Science, Mumbai  
**Board Membership:** Since 2011

**3. Name:** Avni Udani  
**Position:** Non-Executive Director  
**Years of Experience:** 15 years  
**Education:** ●Diploma –Mumbai University, India  
 ●B.Sc – Mumbai University, India  
 ●M.Sc – Mumbai University, India  
**Job Experience:** ●MeCure Industries Limited  
**Board Membership:** Since 2008

**4. Name:** Dukor Andrenaline Ndidi  
**Position:** Executive Director  
**Years of Experience:** 23 years  
**Education:** ●B.Pharm – University of Nigeria, Nsukka  
 ●M.Sc-University of Lagos  
**Job Experience:** ●MeCure Industries Limited  
 ●Renaissance Pharmaceutical  
**Board Membership:** Since 2007

**5. Name:** Ayotunde Owoigbe  
**Position:** Independent Director  
**Years of Experience:** 19 years  
**Education:** ●LL.B -University of Lagos

**6. Name:** Chidi Okoro  
**Position:** Independent Director  
**Years of Experience:** 30 years  
**Education:** ●B.Pharm - University of Nigeria  
 ●MBA - University of Lagos  
 ●Masters, IE Business School  
**Job Experience:** ●Emzor and Glaxosmithkline

## INDUSTRY REVIEW

The non-oil sector grew by 4.73% in real terms during the reference quarter (Q4 2021). This rate was higher by 3% compared to the rate recorded same quarter of 2020 and 0.71% lower than the third quarter of 2021.

The main drivers of the growth in the fourth quarter of 2021 were mainly Agriculture, Trade, Telecommunication as well as Financial and Insurance.

Local manufacturing contributes less than 5% to the Nigerian economy. Over the years this has continued to decline steadily because of the enormous challenges

manufacturers face. In the second quarter of 2020, the contribution of manufacturing to GDP was 11.79%. As at the corresponding period of 2021, it rose to 14.18% but lower than the first quarter at 15.27%. Capacity utilization has also dropped consistently.

Among many other challenges, manufacturers in Nigeria are faced with lack of basic infrastructure, poor electricity supply, insecurity, inconsistent government policy and inability to access funds for business expansion. Though there have been several incentives to boost manufacturing in terms of bailout of specific industries like textile, the manufacturing industry remains a shadow of itself. Manufactured goods have constituted the biggest imports in Nigeria since the 1980s.

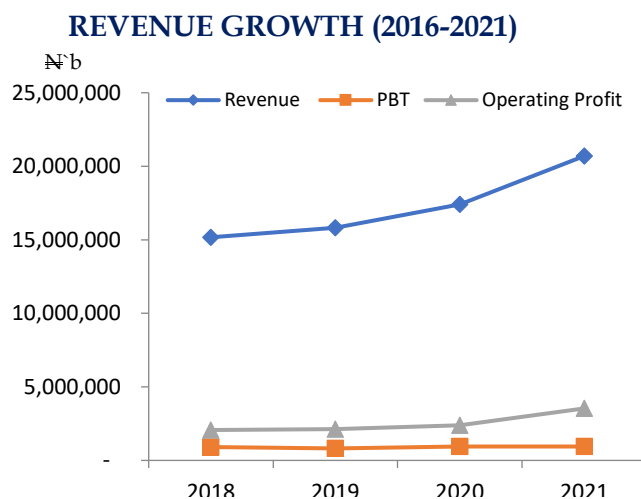
Due to the insufficiency of local production versus demand, there is intense import competition against local products. The imposition of higher tariffs on imported finished goods and funding incentive to local players are some of the government efforts in support of the sector.

The Russia-Ukraine war which started in Q1 of 2022 has added to energy crisis globally by way of increased oil prices. Manufacturers in Nigeria are facing huge energy crisis with poor public supply and high cost of diesel threatening continuous production. Survival in the sector depends on ability to pass increase in cost of inputs to the consumer without jeopardizing customer loyalty.

The *Central Bank of Nigeria (CBN)* launched the Healthcare intervention fund to provide ₦100bn credit to functional health enterprises at a low interest rate. This is in addition to the commercialization of research outputs from government institution to encourage R&D in healthcare. The on-going efforts of government through *NAFDAC* are expected to reduce counterfeit medicines which are prevalent in Nigeria. These efforts include the 5+5 Policy which favors the Local Manufacturers and protect the Local Industry.

## FINANCIAL PERFORMANCE

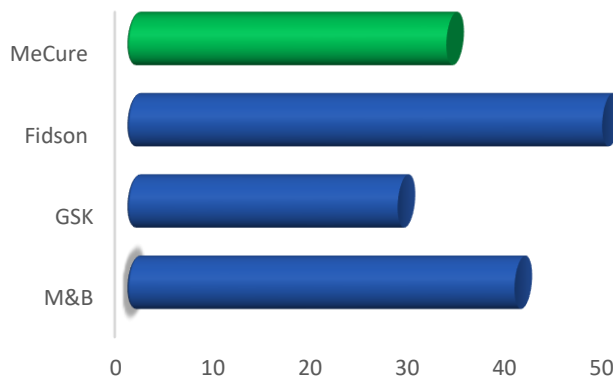
- EARNINGS PROFILE**



Source: MeCure Industries Limited

*MeCure Industries Ltd* continues to enjoy increased revenue underpinned by focused marketing strategies and an extensive customer base. Therefore, Turnover grew by 18% from ₦17.4b (Yr.20) to ₦20.7b (Yr.21). Earnings were derived solely from sales of its finished goods.

**PEER COMPARISON: GROSS PROFIT MARGIN (2021)**



Source: DataPro Limited

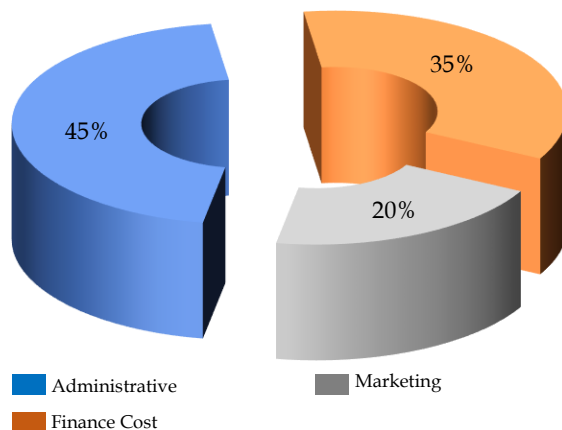
Cost of Sales also went up by 17% from ₦11.9b (Yr. 20) to ₦13.9b (Yr.21). Consequently, the Gross Profit Margin shifted from 32% (Yr. 20) to 33% (Yr.21). despite the increase, it fell below the average performance of some its peers in the industry.

**PROFITABILITY**

Item	2021 ₦'000	2020 ₦'000
Gross Profit	6,779,900	5,568,371
Operating Expenses	(3,244,536)	(3,173,314)
Finance Cost	(1,741,496)	(1,448,732)
Profit Before Tax	1,793,869	946,325

Total Expenses of the Company comprised of Marketing, Administrative and Finance cost. These recorded a combined growth of 8% from ₦4.62b (Yr.20) to ₦4.98 (Yr.21). The growth was driven by increase in Finance and Marketing Cost. However, Administrative Expenses accounted for 45% of the Company's Total Cost summing up to ₦2.3b during the year 2021. Due to increased cost of borrowing, Finance Cost grew from ₦1.48b (Yr.20) to ₦1.74b (Yr.21) and accounted for 35% of Total cost.

**COMPOSITION OF OPERATING EXPENSES (2021)**



Source: MeCure Industries Limited

In view of the growth in Revenue as against moderate increase in Operating Expenses, Profit doubled from ₦0.95b (Yr.20) to ₦1.8b (Yr.21). Consequently, Profit Margin improved from 5.4% (Yr.20) to 8.7% (Yr.21).

**CAPITALISATION**

**BREAKDOWN OF THE TOTAL ASSET**

ITEM	2021	%
Current Asset	11,315,874	54.4
Non Current Asset	8,353,971	42.6
Total Asset	19,669,844	100

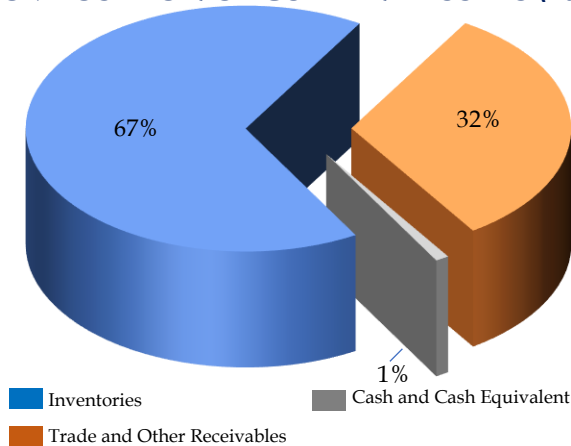
Source: MeCure Industries Limited

The growth in Profit Before Tax was very strong in the year 2021. However, the Company could not plough back its profit to strengthen Capital. This was due to the growth in Taxation from ₦0.3b (Yr.20) to ₦1.1b in the year 2022. Therefore, Equity

remained stable at around ₦4.7b for Yr.20 & Yr.21.

Total Assets increased by 18% from ₦17b (Yr.20) to ₦20b (Yr.21). This was due to continuous investments in Property, Plant and Equipment as well as Work-In-Progress (WIP) Oncology. The Long-Term Assets accounted for 43% of Total Assets in the year 2021. This class of Assets amounted to ₦8.4b (Yr.21) as against ₦6.6b (Yr.20).

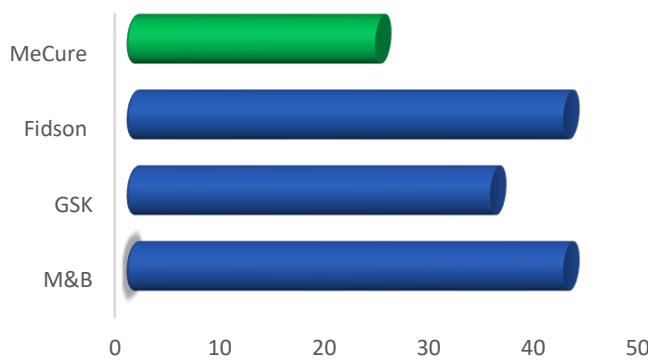
**COMPOSITION OF CURRENT ASSETS (2021)**



Source: MeCure Industries Limited

Current Asset balance was ₦11.3b (Yr.21) as against ₦10.2b (Yr.20). Inventories accounted for 66% and 39% of the Current and Total Assets respectively. As at year ended, 2021 inventories stood at ₦7.6b as against ₦6.9b (Yr.20). Other components include Trade and Receivables. A major portion of Receivables was held by Related Parties as Loan Repayments and Short-Term Non-Interest Borrowings.

**PEER COMPARISON: EQUITY TO TOTAL ASSETS (2021)**



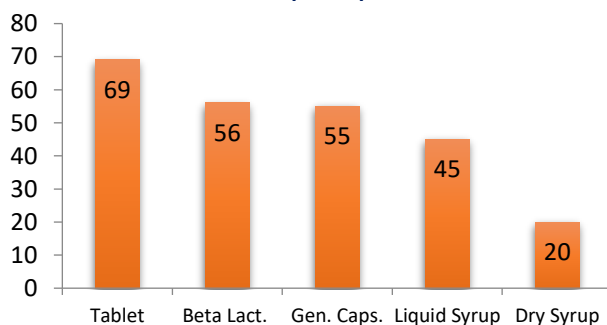
Source: DataPro Limited

Equity to Total Asset declined from 28% (Yr.20) to 24% (Yr. 21). Liabilities funded 76% of Total Assets during the year under review. The Liabilities of the Company consisted of Interest-Bearing Borrowings. These categories of obligation represented 87% of the Company's Total Liabilities.

The Funding mix of the Company fell below its peers during the year 2022.

**ASSET UTILITY**

**PRODUCTION CAPACITY UTILIZATION (2021)**

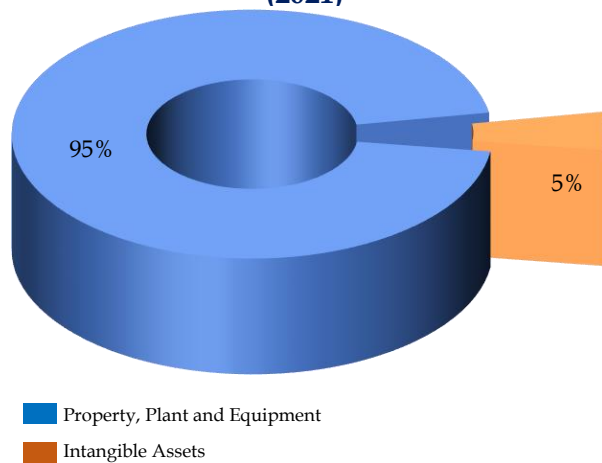


Source: MeCure Industries Limited

The Company produces medicines in three main forms. These are Tablets, Capsules (beta lactum capsule and general capsule) and Syrup (dry and liquid syrup). The Company is yet to fully utilize its installed capacity.



**COMPOSITION OF NON-CURRENT ASSETS (2021)**

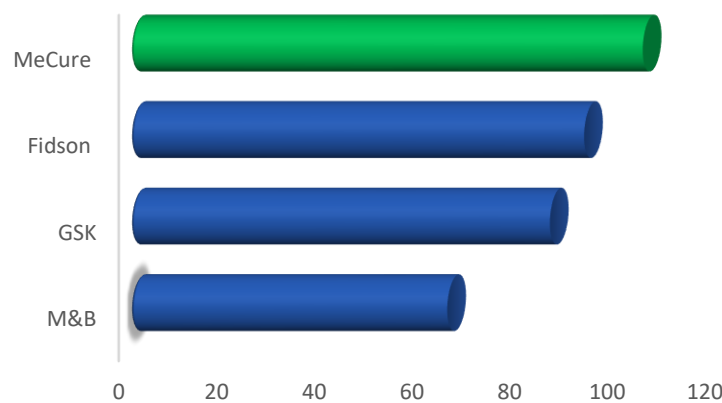


Source: MeCure Industries Limited

Non-Current Assets appreciated by 27% from ₦6.5b (Yr.20) to ₦8.4b (Yr.21). It comprised of Property, Plant & Equipment and Intangible Assets.

The effective utilization of Assets to generate Revenue rose marginally from 104% (Yr.20) to 105% (Yr.21). Similarly, ability to utilize assets to generate profit appreciated from 6% (Yr.20) to 9% (Yr.21). However, the Company's attainment in this regard performed above its peers during the year 2020

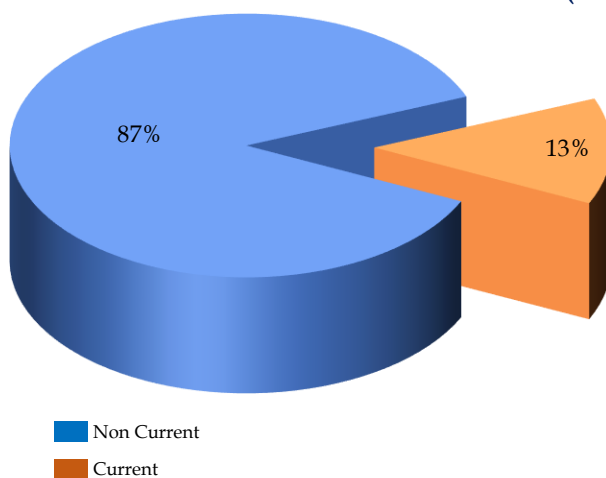
**PEER COMPARISON: REVENUE TO TOTAL ASSETS (2021)**



Source: DataPro Limited

**LIQUIDITY**

**COMPOSITION OF TOTAL LIABILITIES (2021)**

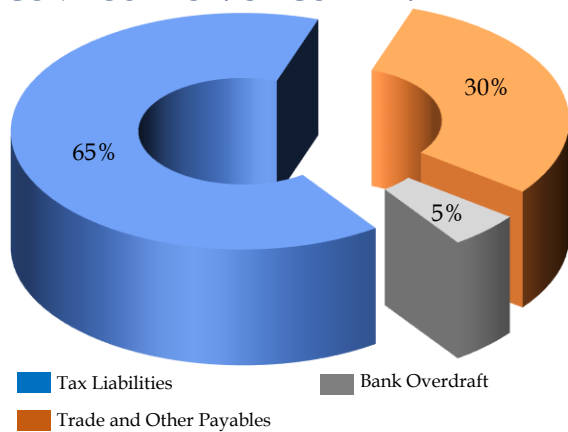


Source: MeCure Industries Limited

Total Liabilities grew by 23% from ₦12b (Yr.20) to ₦15b (Yr.21). The Liabilities are largely long term in nature

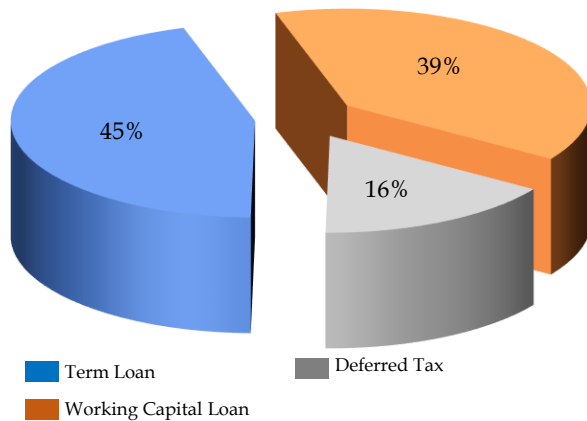
Current Liabilities constituted 13% of the Total Liabilities. However, it grew from ₦1.8b (Yr.20) to ₦2b (Yr.21). It comprised of Bank Overdraft, Trade and Other Payables and Tax Liabilities. The growth was due to increased Current Tax Liabilities in the year under review. Current Tax

**COMPOSITION OF CURRENT LIABILITIES**



Source: MeCure Industries Limited

**COMPOSITION OF NON-CURRENT LIABILITIES (2021)**



Source: MeCure Industries Limited

Liabilities constituted the highest portion of Current Liabilities accounting for 65% in the year 2021.

Interest Bearing Loans and Borrowings constituted 76% of Total Liabilities in the year 2021.

Non-Current Liabilities summed up to ₦12.9b (Yr.21). This is an increase of 27% compared to ₦10b recorded in the year 2020. The Long-Term Borrowing of the Company grew from ₦9.5b (Yr. 20) to ₦10.7b (Yr. 21). This Component made up 84% of the Long-Term Liabilities while the balance represented Deferred Tax. Long Term Loan contracted during the period amounted to ₦1.2b. The Company took advantage of the Capital Market through the issuance of ₦3b Bonds to refinance its existing obligations in the year 2020. A balance of ₦214m was paid during the period under review.

The Company generated a positive cash flow from its operation in the year 2021. Cash generated from operation was ₦2.3b (Yr.21) as against ₦1b recorded in the year 2020. The Company maintained a Current Ratio of 558% (Yr. 20). This indicates a strong ability to meet maturing obligations.

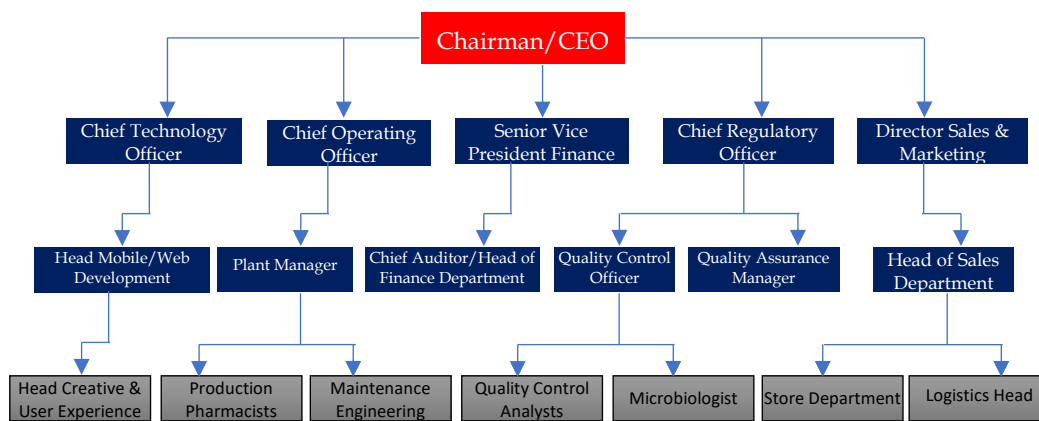
The Company generated a positive cash flow from its operation in the

**CORPORATE GOVERNANCE & RISK MANAGEMENT**

The Company’s Governance framework comprises of two (2) organs which are the Board of Directors and the Executive Committee. The Board of Directors consists of four (4) Executive Directors, two (2) Non-Executive Directors and two (2) Independent Non-Executives. The Executive Committee is comprised of the Executive Director and the senior management team.

The Company’s corporate organogram structure is as highlighted.

## ORGANISATION STRUCTURE



Source: MeCure Industries Ltd

## REGULATORY ENVIRONMENT

The products and affairs of the Company are subject to the regulations of the *Federal Ministry of Health (FMOH)*, *National Agency for Food Drug Administration and Control (NAFDAC)*, *Standards Organisation of Nigeria (SON)* and the *Pharmacists Council of Nigeria (PCN)*.

## RISK FACTORS

In the course of our review, we observed the following significant risks.

- **EXCHANGE RATE RISK**

This is the risk of loss to income as a result of adverse movement in the Exchange Rate between the Nigeria Naira and US Dollars.

Based on our review, we observed that the Company imports one of its most significant raw materials from outside Nigeria. This therefore exposes it to Exchange Rate risk.

- **INTEREST RISK**

This is the risk of loss to income arising from changes in interest rates.

Based on our review, the proportion of Short-Term Borrowings contracted by the Company is minimal compared to its operation. Consequently, it has marginal exposure to Interest Rate Risk.

- **CREDIT RISK**

This is the risk arising from the inability of counterparties to honour their obligations as at when due.

Based on our review, Trade and other receivables represent 19% of the Company's total asset. However, a larger proportion of the Receivables are inter-company related.

## FUTURE OUTLOOK

The Company intends to increase production capacity and manufacture new molecules. It also intends to increase the number of its distributors from 100 to 230 by 2022.

The Company is also targeting a 5% market share in the next 3-5 years.

## CONCLUSION

The Rating of the Company is supported by its strong brand presence, experienced management team, strong liquidity and diversified income sources.

Consequently, we assigned a Rating of "A"

## FINANCES

Financial Position as at

	Dec, 2021		Dec, 2020		Dec, 2019
	₦'000	Δ%	₦'000	Δ%	₦'000
<b>Capital Employed</b>					
Ordinary share capital	20,000	-	20,000	-	20,000
Retained Earnings	4,713,869	1.09	4,662,876	16.44	4,004,393
<b>Total equity</b>	<b>4,733,869</b>		<b>4,682,876</b>		<b>4,024,393</b>
Represented by:					
Non-current assets	8,353,971	27.15	6,570,153	29.19	5,085,525
Current assets	11,315,874	11.33	10,164,135	18.12	8,605,242
Non-current liabilities	(12,909,703)	40	(10,173,241)	64	(7,964,738)
Current liabilities	(2,026,272)	79	(1,878,170)	128	(1,701,637)
<b>Net assets/(liabilities)</b>	<b>4,733,870</b>		<b>4,682,877</b>		<b>4,024,392</b>
<b>share (Naira)</b>	<b>236.69</b>		<b>234.14</b>		<b>201.22</b>
Revenue	20,697,946	18.83	17,418,183	10.15	15,813,495
Gross profit	6,779,900	21.76	5,568,371	7.92	5,159,904
Net operating expenses	(3,244,535)	2.24	(3,173,314)	4.93	(3,024,159)
Operating profit	3,535,365	47.61	2,395,057	12.14	2,135,745
Finance cost	(1,741,496)	20.21	(1,448,732)	9.72	(1,320,374)
Profit before taxation	1,793,869	89.56	946,325	16.06	815,371
Tax (expense)credit	(1,121,139)	289.50	(287,842)	(43.72)	(511,458)
Profit for the year	672,729	(270.26)	658,483	(194.71)	303,913
<b>Basic and diluted earnings/(loss) per share (Naira)</b>	<b>33.64</b>		<b>32.92</b>		<b>15.20</b>

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**Signed:**   
**Name:** Oladele Adeoye  
**Designation:** Chief Rating Officer  
**Date:** 23rd June, 2022

For and on behalf of:  
**DataPro Limited**  
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## USER GUIDE

*DataPro's* credit rating is an opinion of an issuer's/issues overall creditworthiness and its capacity to meet its financial commitment.

Our *short-term* ratings have a time horizon of less than 12 months in line with industry standards reflecting risk characteristics. The ratings place greater emphasis on the liquidity to meet financial commitment in a timely manner.

The long-term risk indicator is divided into 8 bands ranging from AAA through DD. Each band could be modified by + or -. With + representing slightly less risk than -. Such suffixes are not added to the 'AAA' long -term rating category and to categories below 'CCC'. Or to short-term rating older than A1+.

### LONG-TERM RATING

#### Investment Grade

Indicator	Meaning	Explanation
AAA	Lowest Risk.	<i>(Superior)</i> Assigned to companies which have superior financial strength, operating performances and profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion, have a Excellent ability to meet their ongoing obligations.
AA	Lower Risk	<i>(Excellent)</i> Assigned to companies which have excellent financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion, have a very strong ability to meet their ongoing obligations.
A	Low Risk	<i>(Very Good)</i> Assigned to companies which have very good financial strength, operating performance And profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion, have a strong ability to meet their ongoing obligation.
BBB	Slight Risk	<i>(Fair)</i> Assigned to companies which have fair financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These companies,

in our opinion, have an ability to meet their current obligations, but their financial strength is vulnerable to adverse changes in economic conditions.

**Non-Investment Grade**

<b>Indicator</b>	<b>Meaning</b>	<b>Explanation</b>
BB	Moderate Risk	<i>(Marginal)</i> Assigned to companies which have, marginal financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion have an ability to meet their current obligation, but their financial strength is vulnerable to adverse changes in economic conditions.
B	High Risk	<i>(Weak)</i> Assigned to companies which have, weak financial strength, operating performance and profile when compared to the standard established by <i>DataPro Limited</i> . These companies, in our opinion have an ability to meet their current obligation, but their financial strength is vulnerable to adverse changes in economic conditions.
CCC	Higher Risk	<i>(Poor)</i> Assigned to companies, which have poor financial strength, operating performance and profile when compared to the standards established <i>DataPro Limited</i> . These companies, in our opinion may not have an ability to meet their current obligation and their financial strength is extremely vulnerable to adverse changes in economic conditions.
DD	Highest Risk	<i>(Very Poor)</i> Assigned to companies, which have very poor financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion may not have an ability to meet their current obligation and their financial strength is extremely vulnerable to adverse changes in economic conditions.



**SHORT-TERM RATING**

<b>Indicator</b>	<b>Meaning</b>	<b>Explanation</b>
A1+	Highest credit quality	Indicates the strongest capacity for timely payment of financial commitments. May have an added “+” to denote any exceptionally strong credit feature.
A1	Good credit quality	A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
A2	Fair credit quality	The capacity for timely payment of financial commitments is adequate. However, near term adverse changes could result in reduction to non-investment grade.
B	Speculative	Minimal capacity for timely payment of financial commitments, plus vulnerability to near term adverse changes in financial and economic conditions.
C	High default risk	Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favorable business and economic environment. Indicates an entity that has defaulted on all its financial obligations.